

PUBLIC-PRIVATE PARTNERSHIPS: A THEORETICAL OVERVIEW

Abstract

Nowadays, public-private partnerships (PPPs) have resulted into a world-wide instrument for governments facing insufficient resources for growing public investment needs.

Despite the general interest surrounding the cooperation between public bodies and private companies, the tendency of developing a common language for public-private agreements and the focus on identifying and sharing good practices at global level, PPPs lack a clear theoretical identity.

The papers aims to offer a theoretical approach to public-private partnerships, pointing out various academics', international organizations', national and EU institutions' views related to PPPs. Thus, it becomes obvious that PPP is a flexible notion („umbrella-notion”), due to both convergent and divergent trends.

Keywords: public-private partnership, public services, public procurement, privatization, public management reform

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PARTENERIATUL PUBLIC- PRIVAT: O ABORDARE TEORETICĂ DE ANSAMBLU

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Rezumat

Astăzi parteneriatul public-privat s-a transformat într-un instrument utilizat pe scară largă de guvernele care se confruntă cu bugete publice limitate în raport cu nevoile sporite de investiții publice.

În ciuda interesului pe care îl suscită în sine cooperarea dintre sectorul public și mediul de afaceri, a tendinței de conturare a unui limbaj comun pentru aranjamentele de tip public-privat, dar și a importanței acordate identificării și transferului de bune practici la nivel internațional, parteneriatul public-privat nu se bucură de o identitate teoretică clară.

Lucrarea își propune să ofere o abordare teoretică de ansamblu asupra fenomenului PPP, evidențiând punctele de vedere a diferiți teoreticieni, organizații internaționale, instituții naționale și ale Uniunii Europene. Concluzia este că parteneriatul public-privat este o noțiune generoasă („noțiune-umbrelă”), supusă în egală măsură unor influențe de convergență și divergență.

Cuvinte cheie: parteneriat public-privat, servicii publice, achiziție publică, privatizare, reforma managementului public

In the last two decades, at international level we have witnessed the strengthening of the cooperation relationships between public sector and business environment. This trend is amplified by the challenges governments face, such as providing quality infrastructures and services using limited resources. In this context, the solution many governments use for financing and operating public interest projects is public-private partnership (PPP).

Public-private partnership started its expansion in the 80s in the urban development sector and was considered to be an important instrument in the dynamics of urban projects that had common features for both public and private sector. PPP is an agreement made between public authorities and private companies/investors, aimed at designing, building and operating public works and infrastructures, which are usually developed using conventional market mechanisms, such as public procurement procedures. The public body primarily seeks to satisfy a public interest and secondly tries to maximize the socio-economic profitability, while the private operator's goal is to maximize its financial profitability.

There are several terms used in the academic literature for public-private partnership (PFI - Private Finance Initiative, PSP- Private Sector Participation, PFP - Privately Financed Projects, PPI - Private Participation in Infrastructure). Therefore public-private partnership does not have an encompassing and unanimously accepted definition.

In a broad sense, PPP stand for „*any form of voluntary cooperation between public and private actors*” (Trafford and Proctor, 2006). Until now there is not a generally recognized definition for PPPs, but several ones which various governments, institutions/organizations, academics and practitioners use. Thus, public-private partnership can be considered an “umbrella-notion”, that defines a great variety of contractual arrangements between public bodies and private sector organizations, as the definitions below highlight:

- *“forms of cooperation between the public and the private sector for financing, building, modernizing, operating or maintaining a certain type of infrastructure or for providing a service”* (European Commission, 2004);
- *“agreement between the public and the private sector aimed at developing a project or providing a public service, which is traditionally supplied by public bodies”* (European Commission, 2003);
- *“medium or long term relationship between the public and the private sector, characterized by risks and gains sharing and use of multisectorial functions, expertise and financing for*

producing public services" (Prime Minister and Vice Prime Minister Cabinet from Northern Ireland, 2002);

- *"agreement between the public and the private, based on a long term contract, through which the private actor supplies the necessary infrastructure for providing public utilities"* (Grimsey and Lewis, 2004);
- *"wide range of agreements between public and private sectors, which include from simple management contracts, that do not imply private investments, to concession contracts, that imply management, operation, financing by the private entity, in exchange of fee collection directly from users"* (Estache, Juan and Trujillo, 2007);
- *"way of cooperation between public authorities and private sector, respectively non-governmental organizations, businessmen associations or companies for developing a project that generates positive impacts on the labour market and for local economic development"* (Institute for Public Policy - IPP, 2004).
- *"valid way of introducing private management within public services, based on a long term contractual relationship, between a private operator and a public authority; PPP ensures the partial or total provision of the designed public service, by making use of the know-how and resources of the private sector"* (Comera de Comerț și Industrie din România (Romanian Chamber of Commerce and Industry), 2006).

Hodge and Greeve (2007) identify within international academic literature on PPPs, *three major approaches related to public-private partnerships, pertaining to various authors*. Thus, some theorists associate PPP with a new governmental instrument aimed at replacing the classic method of public procurement. Some authors plead for PPP as a term used in public management for indicating the involvement of private organizations in public utilities supply. Others instead consider PPPs a new tool for operating infrastructure projects.

In the attempt to classify the term "public-private partnership", Linder (1999) identifies *six different significances*, embodied in the neoconservative and neoliberal ideologies:

- *PPP as managerial reform* – this meaning points out that public-private partnership is an innovative instrument, intended to change the way public sector performs its activities, by introducing the market discipline. Public-private collaboration facilitates know-how transfer towards public managers, who shift away their great focus on respecting administrative

procedures and become more flexible, develop their entrepreneurial skills and interest for public affairs and attracting financing capital.

- *PPP as instrument for problems conversion* – from this perspective, partnership is not anymore regarded as an instrument for improving managerial practices, but an universal solution to the problems related to public utilities provision. Instead of improving their managerial techniques, public managers try to transform public affairs in an attractive field for private investors. The results of this approach consist in the take over by private operators of public duties and responsibilities, at lower costs.
- *PPP as way of moral regeneration* – from this perspective public-private partnerships as seen as a determinant for public managers seeking to actively participate on the market, which might have positive moral effects on them, such as stimulating their initiative, entrepreneurial capacity and creatively-solving problems abilities. By contrast, privatization is incapable of producing such changes within public sector managers.
- *PPP as risks transfer*- this meaning for partnership results from the fiscal constrain governments are confronted with. The risk transfer towards the private actors makes that public sector problems become private sector problems, which are subordinated to the commercial interest of the latter one.
- *PPP as way of reforming public function* – partnership may represent a way of cutting down the size of the public sector and liberalizing the labour relationships, by replacing governmental employees with private sector human resources, familiar with the strict rules of the labour market (wages proportional with the quality of the work done).
- *PPP as tool for power sharing* – according to this significance, partnership divides the horizontal control, especially concerning regulatory issues, which traditionally are the responsibility of the public sector. From this perspective, PPP may affect the government-business environment relationship, as specific aspects for PPPs such as cooperation and mutual trust partially replace "command and control" type authority relationships; eventual conflicts between partners are negotiated instead of being disputed.

Osborne (2000) identifies *several meanings* of the term „public-private partnership“:

- Way of fighting out social exclusion by integrating the public and the private component at local communities level (government, politicians, citizens, groups of volunteers, etc.).

- Instrument for local public services reform, aimed at making public utilities more accessible and flexible in relation with citizens` needs.
- Opportunities for efficient local public services provision for satisfying social needs, by using public and private sectors resources..
- More flexible way of elaborating public policy, based on the link between community and business environment, aimed at improving the whole public policy process.
- Instrument for reforming governance political basis and creating a sustainable civil society.

The Institute for Public Policy in Romania (2004) considers we cannot and we should not try to formulate a standard definition of public-private partnership if we consider there are different perceptions, according to the nature of the experiences registered by different countries, as well as the variety of collaboration forms between public authorities and the private sector. Moreover, there are several administrative organization systems (centralization, decentralization, deconcentration), as well as diverse political, community, religious cultures. However, in the last years, in Europe, the trend in the PPP field is very much influenced by the anglo-saxon experience and focuses on two main goals: creating jobs and supporting local development in order to assure economic and social cohesion.

At the European Union level there is not an official definition for PPPs. As for the legislative framework, in the EU public-private partnership is not directly regulated. Only the general principles of the European Communities Treaty, as well as the secondary regulation for public procurement and concessions establish some directory lines for PPPs. However, public-private partnership has become a very popular practice in Europe, and PPP models vary from one member state to another, depending on the legal framework or the activity field.

In conclusion, despite the attempts of reaching a common position for defining the public-private cooperation field, PPP reveals itself as an extremely malleable and permeable notion (as shown by the generalized interest of governments towards the PPP solution, the shaping of a common terminology for PPPs, the focus on good practices, examples of successful PPPs, guidelines, etc.), due to the opposite trends of convergence and divergence that characterize the public-private agreements area.

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